

Message Text

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SUBJECT: 1974 BUDGET

REF: PARIS 17599, SEPTEMBER 19, 1972

1. SUMMARY ON SEPTEMBER 19 COUNCIL OF MINISTERS APPROVED 1974 FRENCH BUDGET. AUTOMATIC APPROVAL BY PARLIAMENT IS EXPECTED WITH ONLY MINOR CHANGES. BUDGET IS BALANCED FOR FIFTH CONSECUTIVE YEAR. EXPENDITURES AND REVENUES ARE BOTH PROJECTED TO GROW BY 12.0 PERCENT FROM 1973 BUDGET TO ABOUT 230 BILLION FRANCS. NEW DISBURSEMENTS IN LOAN ACCOUNT WILL BE ONLY SLIGHTLY HIGHER THAN LAST YEAR, AND INCREASE IS OFFSET BY INCREASING REPAYMENTS.

	1973	1974
BILLIONS OF FRANCS		
EXPENDITURES	200.8	224.9
GROSS LENDING	3.7	3.8
TOTAL OUTLAYS	204.5	228.7

REVENUES	201.9	226.0
LOAN REPAYMENTS	2.7	2.8
TOTAL RECEIPTS	204.6	228.8

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BALANCE 0.1 0.1

END SUMMARY

2. ABOVE TABLE PRESENTS EXPANDED OR COMPLETE BUDGET, REPORTED ON THE SAME BASIS AS IN REFTL. PRESS SOMETIMES ALSO REPORTS BUDGET IN CONTRACTED FORM WHERE EXPENDITURES AND RECEIPTS ARE EACH ABOUT 5 BILLION FRANCS LOWER.

3. BUDGET IS PRESENTED IN BALANCE, BUT ASSUMES VERY LARGE GROWTH OF REVENUES DUE TO GROWTH OF OUTPUT AND INFLATION. THE 1973 REVENUES CITED ABOVE ARE ESTIMATES MADE WHEN THE 1973 BUDGET SUBMITTED IN SEPTEMBER 1972. THEY DO NOT INCLUDE LOSSES DUE TO THE TVA REDUCTIONS MADE JANUARY 1973 AND WHICH ARE AUTOMATICALLY REFLECTED IN 1974 FIGURES. IN ADDITION THE NET EFFECT OF THE TAX CHANGES EFFECTIVE IN 1974 (SEPTEL) WILL BE TO REDUCE REVENUES. THE INCREASE IN REVENUES IN THE 1974 BUDGET OVER THE 1973 BUDGET IF THE TAX SYSTEM HAD NOT CHANGED (I.E., THE INCREASE GENERATED BY ECONOMIC GROWTH) WOULD HAVE BEEN OVER 16 PERCENT RATHER THAN 12.0 PERCENT. THIS CHANGE IN ESTIMATED REVENUES DUE TO ECONOMIC GROWTH AND PRICE RISES COMES FROM TWO SOURCES. FIRST 1973 GROWTH IN NATIONAL PRODUCT IS NOW ESTIMATED TO BE MUCH HIGHER THAN WHEN THE 1973 BUDGET WAS PRESENTED. IN EXECUTION 1973 REVENUES WILL BE HIGHER THAN PRESENTED IN THE BUDGET. IN ADDITION THE 1974 BUDGET ASSUMES THAT VERY RAPID GROWTH WILL CONTINUE (12.6 PERCENT VALUE INCREASE IN GROSS INTERNAL PRODUCT IN 1974 OF WHICH 5.5 PERCENT IN REAL GROWTH).

4. LARGE OVERALL INCREASE IN EXPENDITURES ALLOWED INCREASES IN ALL MAJOR CATEGORIES. WAGES OF GOVERNMENT EMPLOYEES SHOWED LARGEST INCREASE OVER 1973. INTEREST PAYMENTS ON PUBLIC DEBT,

THOUGH A RELATIVELY SMALL ITEM, SHOWED THE GREATEST INCREASE IN PERCENTAGE TERMS. THIS LATTER PHENOMENON REFLECTS RESUMPTION BY TREASURY OF POLICY OF LARGE SCALE LONG-TERM BORROWING, WHICH BEGAN LAST YEAR WITH LOAN TO OFFSET REVENUE LOSSES FROM

TVA REDUCTION AND IS BEING CONTINUED WITH PLANNED EXCHANGE OF 3.5 PERCENT GOLD GUARANTEED PINAY LOAN. MILITARY EXPENDITURES BUDGETED TO INCREASE BY 11.0 PERCENT.

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5. CAPITAL EXPENDITURE IS EMPHASIZED IN 1974 BUDGET. ALTHOUGH ACTUAL DISBURSEMENTS WILL INCREASE ONLY 10.1 PERCENT, NEW COMMITMENTS ARE AUTHORIZED TO GROW BY 15.9 PERCENT. NON-BUDGET BORROWING IS PROJECTED TO GROW EVEN FASTER. NON-BUDGET BORROWING FOR HIGHWAYS, HOSPITALS AND TELECOMMUNICATIONS IS SET AT 5.4 BILLION FRANCS IN 1974. VERSUS 3.7 BILLION FRANCS IN 1973.

6. CONTRACYCLICAL FUND HAS BEEN RETAINED IN 1974 BUDGET BUT IS REDUCED FROM 2.3 BILLION FRANCS TO 1.6 MILLION FRANCS. THE FUNDS ARE TO BE SPENT ONLY IF REQUIRED TO CORRECT AN UNACCEPTABLE LEVEL OF UNEMPLOYMENT.

7. IN A DISTINCTLY "HAVE YOUR CAKE AND EAT IT" MOOD, ECONOMICS AND FINANCE MINISTER GISCARD DESTAING TOLD HIS SEPTEMBER 19 PRESS CONFERENCE ON THE BUDGET THAT, (A) IT WAS BALANCED - FOR FIFTH CONSECUTIVE YEAR - BECAUSE OF NEED FOR FISCAL STRINGENCY IN FACE OF CURRENT ECONOMIC OVERHEATING AND PRICE INFLATION - BUT THAT, (B) HIGH RATE OF GROWTH OF EXPENDITURES WAS A KIND OF PRECAUTION AGAINST RECESSIONARY TENDENCIES THAT 1974 COULD HAVE IN STORE. IRWIN

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